

## PROPERTY VALUES AND TAXES PAID BY CLASS OF PROPERTY

The attached chart contains information detailing the increase in Market Value, Taxable Value, and taxes paid by property in the various classifications of property in Montana.

**Market Value**—for most classes of property, Market Value is the value the Montana Department of Revenue calculates that a property would bring in a sale from a willing seller to a willing buyer under normal circumstances. There are several ways Market Value is calculated depending upon the type of property being valued. Comparable sales are often used for homes, capitalized income is used for commercial property and more complicated methods are used for industrial properties.

**Taxable Value**—this is a calculated number used as a step to determining the amount of taxes a property will pay and the share of taxes a class of property will pay. Taxable Value is the Market Value multiplied by the tax rate the legislature sets for that class of property. The tax rates, expressed in percent, vary for each class of property from .37% for forest land up to 12% for pipelines and electric distribution systems. The tax rate in percent is converted to a decimal when calculating taxes. For example 12% would convert to .12 for calculation purposes.

**Taxes Paid**—is the number important to property owners and the governments that depend on property taxes for revenue. Property taxes fund schools, cities, counties, miscellaneous local districts, and 6 mills to the university system. Local entities set a Mill Levy each year to generate the amount of dollars that they are allowed to fund their operations that are paid for with property taxes. A mill is 1/1000 of a dollar. Mills are expressed in a number, for example, 600 mills. The number of mills is converted to a decimal number (.600) when calculating taxes. This formula determines the taxes owed on a given piece of property:

$$\text{Market Value} \times \text{Tax Rate} \times \text{Mills} = \text{Taxes Owed}$$

An example for a home would be;

$$\$200,000 \times .0137 \times .600 = \$1,644$$

The accompanying chart shows that the Market Value of residential property increased by 215% from the year 2000 to 2014. Over the same period of time, the

Taxable Value increased only 75%. This is because the legislature reduced the tax rate to offset increases in Market Value caused by reappraisal. By doing this, the legislature protected the owners of residential property from inflationary increases in value. The 75% increase in Taxable Value is basically the growth in the amount of residential property between 2000 and 2014. The taxes paid by residential property increased 124% in this same time period. This is the result of two factors: more property (75%) and increased mill levies by schools and local governments.

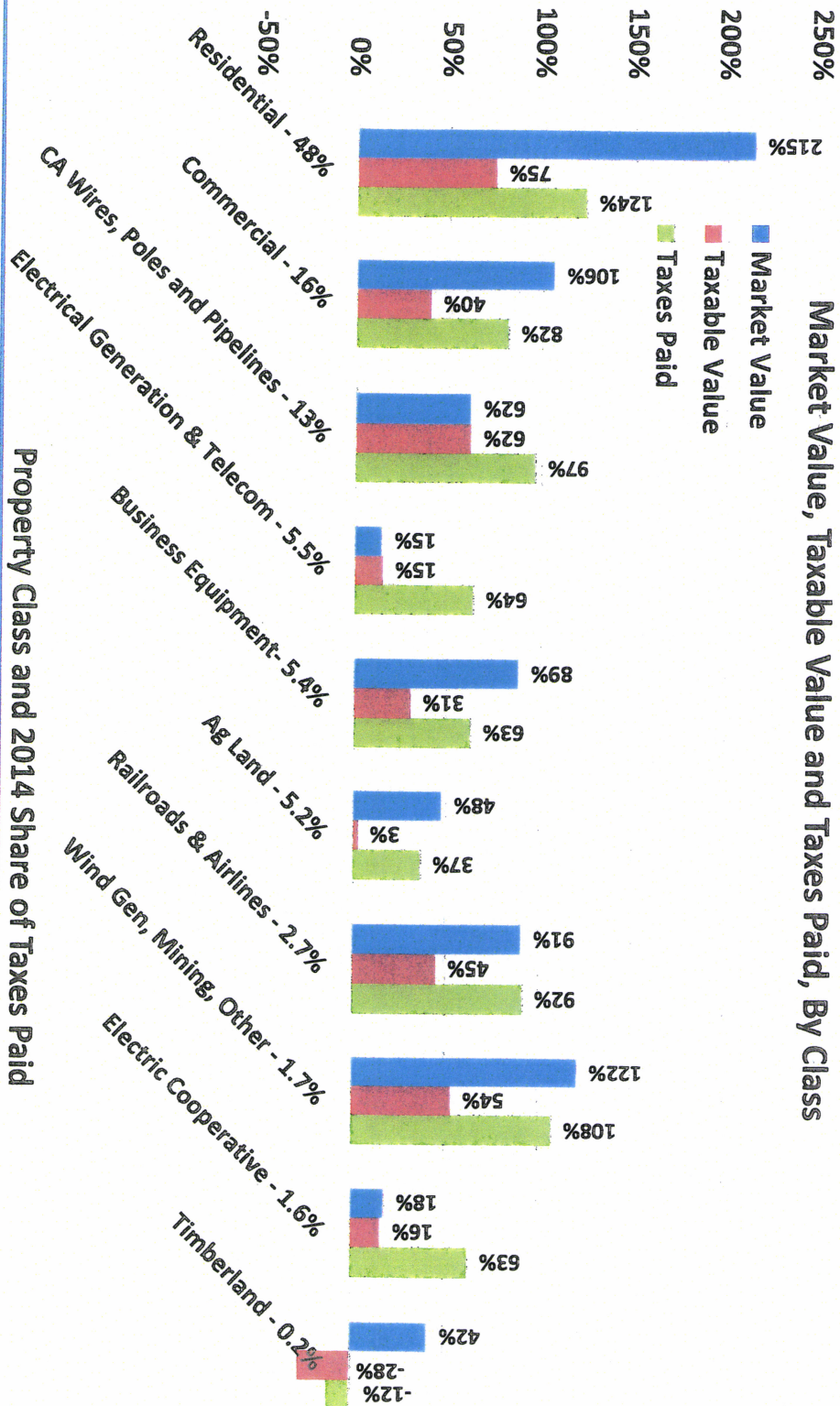
If you look at Electrical generation you will see that Market Value and Taxable Value increased by the same percentage. This is because the legislature did not reduce tax rates as Market Values went up. Taxes increased by 64%, almost all due to mill levy increases.

The chart also shows the share of total property taxes each class paid in 2014. Residential property makes up about 67% of the Market Value of the State and pays about 48% of the property taxes.



# Percent Change in Montana Property, 2000 - 2014

## Market Value, Taxable Value and Taxes Paid, By Class



Property Class and 2014 Share of Taxes Paid

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